IVT

# Inventronics Limited

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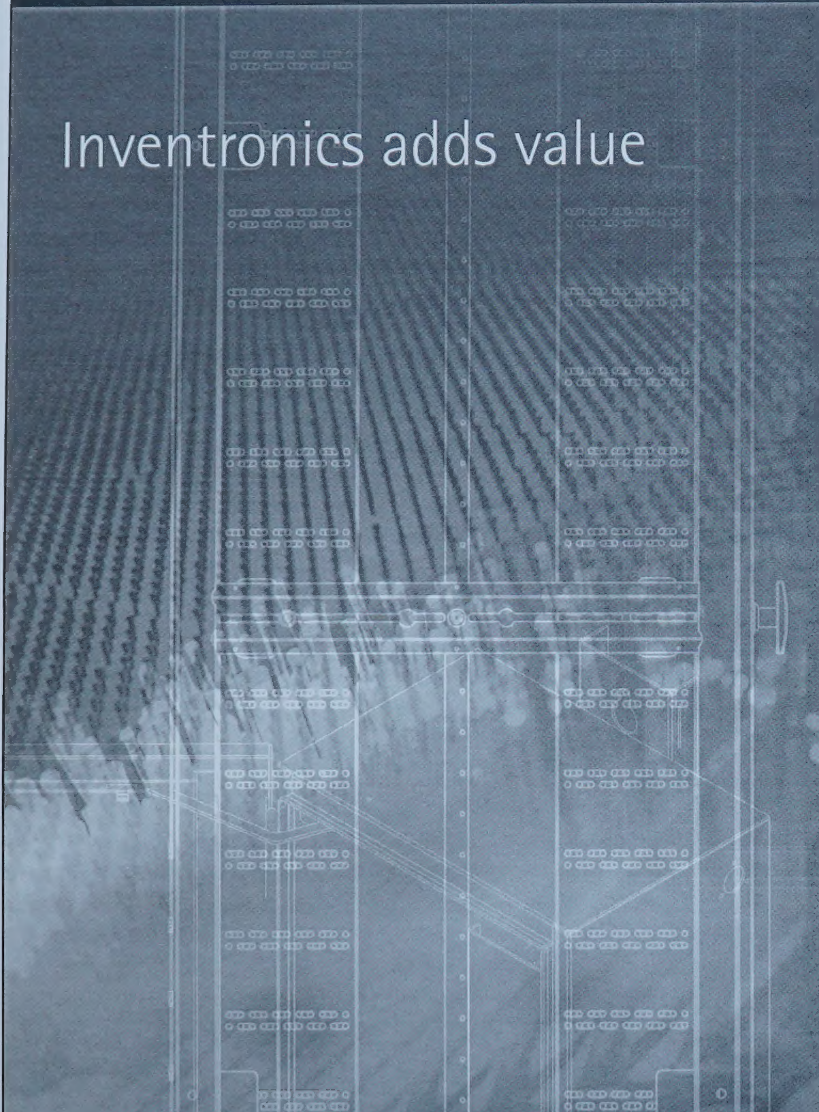
ENTER



2005 ANNUAL REPORT

## Designing and Manufacturing Custom Metal Enclosures

IVT Inventronics Limited




*Inventronics is a contract manufacturer that provides outsourced services in the design, manufacture and integration of sophisticated metal enclosures for the communications, electronics and other industries.*

**AS A SUPPLY CHAIN PARTNER,** Inventronics adds value by providing a variety of essential services including design, procurement, prototyping, manufacturing, assembly, testing, third-party certification and distribution.

The 36-year-old Company owns and operates a world-class, ISO 9001:2000-registered manufacturing facility in Brandon, Manitoba that produces a **DIVERSE RANGE OF METAL ENCLOSURES** and related products for customers throughout North America. The Brandon facility's commitments to quality and customer service have enabled it to serve as an outsource partner and supplier for decades to some of the world's largest and most demanding communications and electronics companies.

To broaden its customer and revenue base beyond the **TELECOMMUNICATIONS INDUSTRY,** Inventronics now offers its enclosure products and services to additional industries including cable television, traffic controls, electric utilities, computer server storage, and energy resources.

| ($ 000's, except per share figures) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **OPERATING PERFORMANCE** | | | | | |
| Sales | $ 17,699 | $ 13,706 | $ 13,951 | $ 25,567 | $ 37,625 |
| EBITDA before restructuring costs | $ 1,186 | $ 403 | $ 449 | $ 113 | $ (69) |
| Operating earnings (loss) | $ 571 | $ (395) | $ (459) | $ (899) | $ (1,971) |
| Net earnings (loss) | $ (1,323) | $ (2,620) | $ (1,505) | $ (7,376) | $ (4,295) |
| **BALANCE SHEET DATA** | | | | | |
| Working capital | $ (593) | $ (673) | $ 334 | $ 1,352 | $ 405 |
| Capital assets | $ 6,148 | $ 6,586 | $ 7,473 | $ 8,168 | $ 10,778 |
| Long Term Debt | $ 3,980 | $ 4,669 | $ 4,801 | $ 5,053 | $ 3,819 |
| Shareholders' equity | $ 2,351 | $ 1,404 | $ 3,965 | $ 5,388 | $ 12,494 |
| **COMMON SHARE DATA** | | | | | |
| Basic earnings (loss) per share | $ (0.07) | $ (0.38) | $ (0.22) | $ (1.07) | $ (0.62) |
| Diluted earnings (loss) per share | $ (0.07) | $ (0.38) | $ (0.22) | $ (1.07) | $ (0.62) |
| Book value per share | $ 0.11 | $ 0.20 | $ 0.58 | $ 0.78 | $ 1.82 |
| Common shares outstanding at year end | 21,975,726 | 6,975,726 | 6,875,726 | 6,875,726 | 6,875,726 |

*The year 2005 was a year of continued turnaround and transition for growth. Sales and earning improvements were definitive and the move beyond three very difficult years has occurred.*

The year began with the approval of a refinancing by the shareholders that reduced the interest burden on the Company, and increased retained cash flow. This transition was essentially a pay-down and restructuring of debt in exchange for common shares. This restructuring has made it possible for the Company to rebuild its working capital from net earnings. The reduction in long-term interest costs in 2005 was more than $500,000 compared to 2004.

Sales for the year increased 29%, marking a clear turnaround for Inventronics. This growth in sales came from new customers earned through our concerted sales and marketing efforts, and from an increase in telecom industry spending. New customer sales are mainly for Alberta, which is the new focus of the Company's efforts. Increased telecom capital spending reflects the renewed focus of the North American telco's to build out digital networks fully capable of delivering internet, voice over internet protocol telephone and television. This activity is projected to go on for a few years by industry observers.

In 2004, a significant restructuring of the administration of the Company was effected by moving most of those functions to the Brandon plant. The result for 2005 was an overall reduction in costs of approximately $500,000.

The year finished with a net income before restructuring costs of $67,000. This is a small beginning, but is very significant because a profit was not earned by Inventronics over the last four years as the telecom industry went through the worst downturn in its history. The profit might have been larger but the sales growth experienced in 2005 began suddenly in the fourth quarter. Because the Company had been sized for a lower level of sales, significant costs were incurred in Q4 to bring the facilities back to a level capable of producing at the required levels. During this ramp up, it was also necessary to temporarily outsource certain processes until a full compliment of workers could be hired and trained at the Brandon facility. This outsourcing resulted in significant penalties in cost.

Inventronics enters 2006 with a cost efficient and fully capable operation with sales levels expected to exceed 2005. With adequate trained personnel and well functioning processes, this should result in a profitable year and appropriate returns on capital. The long road of downsizing is now past and a new period of profitability and growth is emerging. This is a direct result of the commitment and innovation of all of Inventronics' employees, who are now looking forward to showing the shareholders a reward for their patience.

Respectfully submitted on behalf of Inventronics Limited.

**Dan J. Stearne**
*President and Chief Executive Officer*

## OVERVIEW

*Inventronics Limited designs and manufactures custom metal enclosures and related products for the communications, electronics and other industries in North America. The metal enclosures and related products are used in outdoor or indoor applications to house and protect passive and/or active components. These products are custom designed and manufactured to suit the needs of each customer for each application. In many circumstances, the customer's components are incorporated into the enclosures, which are delivered directly to the end user, providing a complete outsourcing service.*

*The following discussion and analysis presents the results from operations of the Corporation for the years ended December 31, 2005 and 2004. The majority of the Corporation's revenues are generated through the sale of finished enclosures to one principal customer, which accounted for approximately 77% of the Corporation's 2005 sales, compared to 79% in 2004.*

## COMPARISON OF THE YEARS ENDED DECEMBER 31, 2005 AND 2004

### SALES

Sales for the year ended December 31, 2005 were $17.7 million compared to almost $13.7 million for the prior year ended December 31, 2004. The increase in sales resulted from an increase in demand from existing customers and business from new customers. More than 68% of Inventronics' sales are denominated in US currency.

Emphasis on growing Inventronics' sales beyond its largest customer and within Canada is continuing. The awareness of Inventronics in other markets has increased dramatically in 2005 through a very focussed marketing and sales program directed at identifying opportunities principally within Alberta and Manitoba. The number of new customers is gaining momentum and increases in sales to these customers are projected for 2006.

Included in the terms of its supply contract with its largest customer are provisions for the sharing of price fluctuations in the cost of steel and changes in the US dollar exchange. This significantly mitigates the risk associated with these items.

## COST AND EXPENSES

Cost of sales as a proportion of sales decreased in 2005 to 89%, compared to 90% in 2004. This improvement was less than expected because of increases in the cost of steel, which is the Corporation's principle raw material, and the devaluation of the US dollar. Price increases to recover the effect of these rising costs were implemented and will continue to be worked into the marketplace as opportunities are identified. Efficiency gains from higher plant utilization also helped to offset some of the negative effects of these cost increases.

Selling and administrative spending was reduced 27% in 2005, resulting in total costs of $742,000 compared to $984,000 for the prior year. Management has taken an aggressive stance on aligning these costs with sales over the past couple of years – reducing them by 54% from December 31, 2003. These costs are not expected to change significantly in 2006.

Interest costs decreased to $504,000 in 2005 from $952,000 in 2004 as a result of the restructuring of long-term debt.

On March 8, 2005, the shareholders of the Corporation approved a debt restructuring arrangement with the Corporation's subordinated promissory note holders as described in Note 12. The restructuring provided for the issue of 15,000,000 common shares from treasury at a price of $0.15 per share in exchange for amendments to the promissory notes aimed at significantly reducing the Corporation's borrowing costs and overall debt obligations. This agreement resulted in a change of control of the Corporation, with the note holders owning 68% of the issued and outstanding shares.

## NET LOSS

The net loss for the year ended December 31, 2005 amounted to $1.323 million or 5.9 cents per share compared to a net loss of $2.620 million or 38 cents per share for the year ended December 31, 2004. Before restructuring costs the Corporation earned a profit in 2005 of $67,000 compared to a loss of $1,362,000 in 2004. This improvement is the result of restructuring of long-term debt, cost reductions from restructuring in 2004 and higher sales. The loss of $142,000 in the fourth quarter was the result of incurring costs required to ramp up the operations to respond to the growth in sales now being experienced by the Company.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position improved from a deficit of $673,000 at December 31, 2004 to positive working capital of $230,000 at December 31, 2005. This improvement is the result of positive cash flow from operations and securing a bank term loan. In December of 2005 the Corporation renegotiated its bank loan to a revolving operating line of credit of $1,500,000 and a term loan of $600,000. The operating line is a demand facility bearing interest at prime plus 2.0%. The term bank loan bears interest at prime plus 2.75%, and is repayable at $20,000 per month from July 1, 2006 through December 1, 2006, at $35,500 per month from January 1, 2007 to September 1, 2007 and with the balance due September 30, 2007.

## RISK FACTORS

The success of the Corporation is dependent on a number of factors. These factors include the ability to manage and adequately finance operations; the Canadian dollar exchange rates; the need to satisfy changing and increasingly complex customer requirements; dependence on a small number of customers and a limited number of key personnel and suppliers; and competition from companies with greater resources.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to the Chief Executive Officer ("CEO") on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the period covered by this report, Inventronics' management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of and the participation of the CEO. Based on this evaluation, the CEO has concluded that Inventronics' disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings, are effective to ensure that material information relating to Inventronics' is made known to management on a timely basis and is included in this report.

## SELECTED ANNUAL & QUARTERLY FINANCIAL HISTORY

### ANNUAL INFORMATION

For the Years Ended December 31
($'000's except per share amounts)

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Sales | $ 17,699 | $ 13,706 | $ 13,951 |
| EBITDA before restructuring costs | 1,186 | 403 | 449 |
| Loss from continuing operations | (1,323) | (2,620) | (1,505) |
| Net loss | (1,323) | (2,620) | (1,505) |
| Total assets | 9,311 | 9,625 | 11,394 |
| Total liabilities | 6,961 | 8,221 | 7,429 |
| Basic and diluted loss per share | (0.07) | (0.38) | (0.22) |
| Book value per share | 0.11 | 0.20 | 0.58 |

### QUARTERLY INFORMATION

For the Quarters Ended
($'000's except per share amounts)

| | Dec. 31/05 | Sept. 30/05 | June 30/05 | Mar. 31/05 |
|---|---|---|---|---|
| Sales | $ 5,498 | $ 4,396 | $ 4,187 | $ 3,618 |
| EBITDA before restructuring costs | 105 | 406 | 414 | 264 |
| Net loss | (142) | 137 | 157 | (1,456) |
| Basic and diluted loss per share | (0.01) | 0.01 | 0.01 | (0.08) |

| | Dec. 31/04 | Sept. 30/04 | June 30/04 | Mar. 31/04 |
|---|---|---|---|---|
| Sales | $ 3,310 | $ 3,695 | $ 3,437 | $ 3,264 |
| EBITDA before restructuring costs | (155) | 181 | 226 | 151 |
| Net loss | (1,886) | (267) | (198) | (269) |
| Basic and diluted loss per share | (0.27) | (0.04) | (0.03) | (0.04) |

## MANAGEMENT'S REPORT

The accompanying financial statements of Inventronics Limited and all information in this report are the responsibility of Management of the Corporation and have been approved by the Board of Directors. Management prepared the financial statements based on the information available in accordance with generally accepted accounting principles. The financial statements and other financial information have been prepared using the accounting policies described in Note 1 to the financial statements and reflect Management's best estimates and judgements. Financial information presented throughout this report is consistent with data presented in the financial statements.

A system of internal accounting control is maintained in order to assure, on a reasonable and cost effective basis, the reliability of this financial information. This system includes established policies and procedures, the selection and training of qualified personnel and an organisation providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its duties related to the financial statements by reviewing and discussing financial information prepared by Management and through the activities of its Audit Committee. The Committee meets with Management to assure that it is performing responsibly to maintain financial controls and systems and to review the financial statements of the Corporation. The Audit Committee also meets with the independent auditors to discuss the audit approach, the review of internal accounting controls and the results of their audit examination prior to recommending its approval of the financial statements.

The shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants have examined the financial statements, and their report is presented herein.

**Dan J. Stearne**
*President, Chief Executive Officer and Chief Financial Officer*

*February 17, 2006*

## AUDITORS' REPORT

**To the Shareholders of Inventronics Limited**

We have audited the balance sheets of Inventronics Limited as at December 31, 2005 and 2004 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

**Chartered Accountants**

*Calgary, Canada*

*February 17, 2006*

## BALANCE SHEETS

(All dollar amounts expressed in thousands of Canadian dollars)

| December 31, | 2005 | 2004 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and cash equivalents | $ – | $ 58 |
| Accounts receivable [note 2] | 1,736 | 1,520 |
| Inventories [note 3] | 1,370 | 1,201 |
| Prepaid expenses | 57 | 49 |
| | 3,163 | 2,828 |
| Capital assets [note 4] | 6,148 | 6,586 |
| Other assets [note 5] | – | 211 |
| | $ 9,311 | $ 9,625 |

| December 31, | 2005 | 2004 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current | | |
| Bank operating loan [note 6] | $ 1,135 | $ 1,150 |
| Accounts payable and accrued charges [note 7] | 1,363 | 1,564 |
| Current portion of long-term debt [note 8] | 435 | 787 |
| | 2,933 | 3,501 |
| Long-term debt [note 8] | 3,980 | 4,669 |
| Other deferred liabilities | 48 | 51 |
| | 6,961 | 8,221 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital [note 9] | 16,776 | 14,506 |
| Deficit | (14,426) | (13,102) |
| | 2,351 | 1,404 |
| | $ 9,311 | $ 9,625 |

See accompanying notes

On behalf of the Board:

**Donald R. Steele**
*Director*

**Dan J. Stearne**
*Director*

## STATEMENTS OF LOSS AND DEFICIT

(All dollar amounts expressed in thousands of Canadian dollars)

| December 31, | 2005 | 2004 |
|---|---|---|
| **Sales** | $ 17,699 | $ 13,706 |
| **Costs and Expenses** | | |
| Cost of sales | 15,771 | 12,334 |
| Selling and administration | 742 | 984 |
| Depreciation and amortization | 615 | 798 |
| | 17,128 | 14,116 |
| **Operating earnings (loss)** | 571 | (410) |
| Restructuring charges [note 12] | 1,390 | 1,258 |
| Interest expense – Current | 145 | 66 |
| – Long term | 359 | 886 |
| **Net loss** | (1,323) | (2,620) |
| Deficit, beginning of the year | (13,102) | (10,482) |
| **Deficit, end of the year** | $ (14,426) | $ (13,102) |
| **Basic and diluted loss per share** [note 10] | $ (0.07) | $ (0.38) |

See accompanying notes

## STATEMENTS OF CASH FLOWS

(All dollar amounts expressed in thousands of Canadian dollars)

| December 31, | 2005 | 2004 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (1,323) | $ (2,620) |
| Items not involving cash [note 13] | 2,064 | 2,523 |
| Changes in non-cash working capital balances [note 13] | (593) | 291 |
| | 147 | 194 |
| **Financing activities** | | |
| Proceeds of term loan | 600 | |
| Repayment of capital lease obligations | (612) | (576) |
| | (12) | (576) |
| **Investing activities** | | |
| Acquisition of capital assets | (177) | (127) |
| Proceeds on disposal of capital assets | – | 5 |
| | (177) | (122) |
| **Decrease in cash and cash equivalents** | (42) | (504) |
| Cash and cash equivalents, beginning of the year | (1,092) | (588) |
| **Cash and cash equivalents, end of the year** [note 13] | $ (1,135) | $ (1,092) |

See accompanying notes

December 31, 2005 and December 31, 2004
(All dollar amounts expressed in thousands of Canadian Dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation designs and manufactures custom enclosures and related products for the communications, electronics and other industries in North America. Since the measurement of certain assets and liabilities is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using careful judgements, which in Management's opinion, are within reasonable limits of materiality and conform to the following significant accounting policies. These significant accounting policies are presented to assist the reader in evaluating the financial results and, together with the following notes, should be considered an integral part of the consolidated financial statements.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash balances with banks and short-term investments, which approximate the fair value of amounts shown in the financial statements. All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents.

### Inventories

Finished goods and work in progress are stated at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw material, labour costs, and applicable production overheads. Raw materials are stated at the lower of cost determined on a first-in, first-out basis, and replacement cost.

### Leases

Leases are classified as capital or operating. Leases, which transfer substantially all of the benefits and risks incident to ownership of property, are accounted for as capital leases. Assets acquired under capital leases are amortized on a straight-line basis over the estimated life of the asset or the lease term, as appropriate. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

### Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Capital assets are assessed for possible impairment of value on an ongoing basis. Depreciation and amortization of the original cost is provided on a straight-line basis over the estimated useful life for each asset, with the amortization period not to exceed the following:

| | |
|---|---|
| Buildings | 40 years |
| Machinery and equipment | 15 to 20 years |
| Furniture and fixtures | 10 to 20 years |
| Computer equipment | 3 to 5 years |
| Leasehold improvements | Term of lease |

### Financial instruments

The Corporation's financial instruments consist of accounts receivable, bank indebtedness, accounts payable, accrued liabilities and long-term debt. The carrying values of these assets and liabilities are considered to approximate fair value unless otherwise disclosed. The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments and short-term obligations.

The Corporation is exposed to credit risk with respect to certain accounts receivable; however, the majority of receivables are with large national and multi-national customers transacted under formal contractual arrangements. The Corporation follows a program of credit evaluations of customers, and limits the amount of credit extended when deemed necessary. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within Management's expectations.

The Corporation is exposed to foreign exchange risk related to rate fluctuations associated with accounts receivable and accounts payable. The Corporation periodically assesses its hedging requirements in relation to its export revenues, which are principally denominated in US dollars.

### Revenue recognition

Revenue is recognized upon shipment of manufactured goods to the customers. In limited circumstances, revenue may be recognized on a progress-billing basis when it relates to specific design or engineering services. The related costs of sales are comprised of manufacturing costs, including materials, labour, overhead and design service costs.

### Income taxes

Future income tax liabilities and future income tax assets are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets including unused tax losses are only recognized to the extent that it is more likely than not that such losses will be ultimately utilized. All future income tax assets and liabilities are measured using enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

### Earnings (loss) per share

Earnings (loss) per share is calculated using the treasury stock method, which assumes that the proceeds received upon the assumed exercise of all stock options and warrants outstanding in the year are used to repurchase the Corporation's shares at the average share price during the period.

### Stock option plan

The Corporation accounts for its stock-based compensation plan using the fair value method of valuing the stock options granted, and as such, the values are expensed as compensation costs in the income statement and credited to shareholders equity.

### Foreign currency translation

Monetary assets and liabilities of the Corporation denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at approximate exchange rates prevailing at the time the transaction occurred. Exchange gains and losses are recognized in the current period earnings.

### Impairment of long-lived assets

Long-lived assets are tested for impairment whenever a change in events or circumstances indicates that the carrying value may not be recoverable. Any resulting impairment loss is recognized in the period it is determined.

## 2. ACCOUNTS RECEIVABLE

| December 31, | 2005 | 2004 |
|---|---|---|
| Trade receivables | $ 1,649 | $ 1,428 |
| Government excise taxes | 87 | 92 |
| | $ 1,736 | $ 1,520 |

While the Corporation sells its products to numerous customers, the major customer referred to in Note 14 represented 77% of the December 31, 2005 accounts receivable balance (December 31, 2004 – 73%).

## 3. INVENTORIES

| December 31, | 2005 | 2004 |
|---|---|---|
| Finished goods | $ 331 | $ 294 |
| Work-in-progress | 27 | 43 |
| Raw materials | 1,012 | 964 |
| | $ 1,370 | $ 1,201 |

## 4. CAPITAL ASSETS

| December 31, | 2005 | | 2004 | |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Cost | Accumulated depreciation |
| Land | $ 6 | $ – | $ 6 | $ – |
| Buildings | 1,726 | 756 | 1,726 | 711 |
| Machinery and equipment | 9,432 | 4,486 | 9,347 | 3,987 |
| Furniture and fixtures | 244 | 112 | 241 | 91 |
| Computer equipment | 1,224 | 1,132 | 1,137 | 1,082 |
| | $ 12,634 | $ 6,486 | $ 12,457 | $ 5,871 |
| Net book value | $ 6,148 | | $ 6,586 | |

Included in machinery and equipment are assets acquired under capital lease at a cost of $3,915 (December 31, 2004 – $3,915) with accumulated depreciation of $1,273 (December 31, 2004 – $1,056).

## 5. OTHER ASSETS

| December 31, | 2005 | 2004 |
|---|---|---|
| Deferred financing costs [note 12] | $ – | $ 211 |

## 6. BANK CREDIT FACILITIES

At December 31, 2005, the Corporation had the following credit facility agreements:

**Demand revolving operating credit facility**

This facility has an authorized limit of $1,500 (or the equivalent in US dollars) available by way of prime-based loans, banker's acceptances, letters of credit or guarantee, bearing interest at bank prime plus 2.0% per annum resulting in an effective rate of 7.00% at December 31, 2005 (December 31, 2004 – 6.25%). The balance outstanding on this facility at December 31, 2005 was $1,135 (December 31, 2004 – $1,150).

As collateral for this facility, the Corporation has pledged a fixed and floating charge debenture in the amount of $3,000 with a fixed charge on certain of its manufacturing plant assets, an assignment of its accounts receivable and book debts and a general security agreement. This credit facility contains restrictive covenants and at December 31, 2005 and December 31, 2004 the Corporation was in compliance with these covenants.

## 7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

| December 31, | 2005 | 2004 |
|---|---|---|
| Trade payables | $ 1,067 | $ 1,321 |
| Accrued employee costs | 296 | 243 |
| | $ 1,363 | $ 1,564 |

## 8. LONG-TERM DEBT

| December 31, | 2005 | 2004 |
|---|---|---|
| Subordinated promissory notes with a five-year term, bearing interest at the rate of 8% per annum paid quarterly and principal due December 31, 2007. (See Note 12) | $ 3,500 | $ 3,500 |
| Accrued interest (See Note 12) | – | 1,028 |
| Term bank loan bearing interest at prime plus 2.75%, and repayable at $20,000 per month from July 1, 2006 through December 1, 2006, at $35,500 per month from January 1, 2007 to September 1, 2007 and the balance due September 30, 2007. | 600 | – |
| Capital leases bearing interest at fixed rates ranging from 5.2% to 10.3% per annum with remaining payment terms of up to 20 months. | 315 | 928 |
| | 4,415 | 5,456 |
| Less current portion | (435) | (787) |
| | $ 3,980 | $ 4,669 |

Principal payments due on long-term debt, other than obligations under capital leases, are as follows:

| | |
|---|---|
| 2006 | $ 120 |
| 2007 | 3,980 |
| | $ 4,100 |

Future minimum capital lease payments are as follows:

| | |
|---|---|
| 2006 | $ 324 |
| Less imputed interest | (9) |
| | $ 315 |

## 9. SHAREHOLDERS' EQUITY

An unlimited number of common shares are authorized for issue.

| December 31, | 2005 | | 2004 | |
|---|---|---|---|---|
| | Shares | | Shares | |
| Balance, beginning of the year | **6,975,726** | **$ 14,506** | 6,875,726 | $ 14,447 |
| Issued as compensation for note amendments | | **–** | 100,000 | 27 |
| Fair value of stock options granted | | **20** | | 32 |
| Debt restructuring [note 12] | **15,000,000** | **2,250** | – | – |
| Balance, end of the year | **21,975,726** | **$ 16,776** | 6,975,726 | $ 14,506 |

The Corporation has a stock option plan for the benefit of employees and directors. Under the plan, the Corporation may grant options, up to an authorized "rolling" maximum equal to 10% of the outstanding common shares, to its employees and directors for the purchase of common shares. The exercise price of each stock option is equal to the last closing market price of the Corporation's common shares on the date of grant, and the maximum period during which an option may be exercised is 10 years. The plan provides for vesting on the basis of one-third immediately and the remainder at a rate of one-third on each of the following two grant date anniversaries with certain exercise restrictions related to the market trading price of the shares at the time of exercise. Options granted prior to fiscal 2000 vested either immediately or on the basis of 20% per year over a five-year period and expire as outlined below or, in certain circumstances, on termination of services to the Corporation.

A summary of the Corporation's stock option plan is as follows:

| December 31, | 2005 | | 2004 | |
|---|---|---|---|---|
| | Share quantity | Weighted average price | Share quantity | Weighted average price |
| Outstanding, beginning of the year | **667,434** | **$ 0.64** | 637,434 | $ 0.67 |
| Granted | **350,000** | **0.10** | 60,000 | 0.22 |
| Expired or cancelled | **(160,767)** | **0.46** | (30,000) | 0.52 |
| Outstanding, end of the year | **856,667** | **$ 0.45** | 667,434 | $ 0.64 |

The fair value of stock options recognized at December 31, 2005 is $20 (December 31, 2004 – $32) as determined using a modified Black-Scholes option-pricing model. This model employs a risk-free interest rate ranging from 4.0% to 4.9%, option life of ten years, expected future volatility of 70% and no dividends were assumed. The resultant fair values of stock options granted have been recognized as compensation costs within the current period.

The following options to purchase common shares were outstanding as at December 31, 2005:

| Option price per share range | Weighted average price | Outstanding quantity | Weighted average price | Exercisable quantity |
|---|---|---|---|---|
| $ 0.10 – $ 0.49 | $ 0.17 | 690,000 | $ 0.17 | 440,000 |
| $ 0.50 – $ 0.74 | 0.64 | 41,667 | 0.64 | 41,667 |
| $ 0.75 – $ 0.99 | 0.83 | 94,000 | 0.83 | 94,000 |
| $ 1.00 – $ 6.60 | 5.32 | 31,000 | 5.32 | 31,000 |
| | $ 0.45 | 856,667 | $ 0.57 | 606,667 |

## 10. LOSS PER SHARE

| December 31, | 2005 | 2004 |
|---|---|---|
| Common shares outstanding | **21,975,726** | 6,975,726 |
| Weighted average common shares | **19,222,301** | 6,937,370 |
| Diluted shares outstanding | **22,835,393** | 9,358,160 |
| Diluted weighted average common shares | **22,620,475** | 9,312,286 |

For the years ended December 31, 2005 and 2004, diluted loss per share does not differ from the basic loss per share since the conversion of outstanding stock options and warrants would have an anti-dilutive effect.

## 11. INCOME TAXES

Realization of future income tax assets is dependent upon generating sufficient future taxable income during the period in which the temporary differences are deductible. At December 31, 2005, the realization of future income tax assets remains uncertain and therefore these amounts have not been recognized. The Corporation has non-capital losses of approximately $8,856 expiring in 2008 through 2012. In addition, the Corporation has capital losses of approximately $5,366 available to offset future capital gains, the benefit of which has not been recorded in the accounts.

## 12. RESTRUCTURING CHARGES

| December 31, | 2005 | 2004 |
|---|---|---|
| Debt restructuring costs | **$ 1,390** | $ – |
| Writedown of capital assets | **–** | 243 |
| Write-off of long-term receivable | **–** | 753 |
| | **$ 1,390** | $ 1,258 |

On March 8, 2005, the shareholders of the Corporation approved a debt restructuring arrangement with the Corporation's subordinated promissory note holders. The restructuring provides for the issuance of 15,000,000 common shares from treasury at a price of $0.15 per share in exchange for: (a) the conversion of accrued interest outstanding on the notes to February 28, 2005; (b) the reduction of the interest rate from 17% per annum to 8% per annum effective March 1, 2005; (c) the removal of accrued interest on the notes and all compounding of interest; (d) the deletion of the default rate of interest; (e) the elimination of quarterly principal repayments in favour of a single final payment on December 31, 2007; (f) restructuring fees applicable to the transaction; (g) the cancellation of the 1,715,000 share purchase warrants. This agreement resulted in a restructuring charge of $1,390 and a $2,250 increase in Shareholders' Equity. It also resulted in a change of control of the Corporation, with the note holders owning 68% of the issued and outstanding shares.

On October 29, 2004 the Corporation agreed to forgive its loan receivable from Eurocraft Enclosures Ltd., a former wholly owned subsidiary, in exchange for the cancellation of the letter of credit and guarantee issued by the Corporation in support of Eurocraft's long-term debt obligation to its bank. This transaction eliminates the contingent liability and results in an aggregate restructuring charge of $753 for the write-off of the receivable.

On December 22, 2004, the Corporation announced a plan to restructure its administration, wherein the majority of its financial and administrative functions will be transferred from the Calgary, Alberta corporate office to the Brandon, Manitoba office. This administrative restructuring results in employee termination costs and the write-down of certain office leasehold and software costs totalling $505.

## 13. SUPPLEMENTARY CASH FLOW INFORMATION

| December 31, | 2005 | 2004 |
|---|---|---|
| **Items not involving cash:** | | |
| Depreciation and amortization | $ 615 | $ 846 |
| Accrued interest on subordinated promissory notes | 124 | 656 |
| Fair value of stock options granted | – | 32 |
| Non-cash restructuring costs | 1,305 | 989 |
| | $ 2,044 | $ 2,523 |
| **Changes in non-cash working capital balances:** | | |
| Accounts receivable | $ (215) | $ 96 |
| Inventories | (168) | 38 |
| Prepaid expenses | (9) | 3 |
| Accounts payable and accrued charge | (201) | 154 |
| | $ (593) | $ 291 |
| **Breakdown of cash and cash equivalents (bank indebtedness):** | | |
| Cash | $ – | $ 58 |
| Operating loan | (1,135) | (1,150) |
| | $ (1,135) | $ (1,092) |
| **Supplemental disclosure of cash paid for:** | | |
| Interest | $ 380 | $ 170 |
| Income taxes | $ – | $ 18 |

## 14. SEGMENTED INFORMATION

The Corporation operates within one segment comprising the design and manufacture of custom enclosures and related products for the communications, electronics and other industries in North America.

Significant portions of the Corporation's sales were to, or made with the assistance of, a major international customer through a formal supply agreement. This company has been a customer of the Corporation for more than 30 years and Management is of the opinion that this relationship will continue. For the year ended December 31, 2005, this customer accounted for approximately 77% of the Corporation's revenue (December 31, 2004 – 79%).

## 15. COMPARATIVE FIGURES

Certain 2004 comparative figures have been reclassified to conform to the current year's presentation.

## BOARD MEMBERSHIP AND INDEPENDENCE

Three of the five members of Inventronics' Board of Directors have been determined by the board of directors to be independent directors. None has an interest, business or other relationship that could, in the opinion of the Board of Directors, reasonably interfere with the exercise of a member's reasonable judgment. The directors which have been determined not to be independent are Dan Stearne, President and CEO of Inventronics, and Don Steele, President of Mercantile Bancorp Limited, the agent representing Inventronics' subordinated debt lenders and majority shareholders.

In addition to having a majority of independent directors, there are additional practices in place which assure the Board operates independently from Management:

- the Governance Committee and the Audit Committee are chaired by independent directors;
- the majority of the members of the Governance Committee are independent directors;
- the majority of members of the Audit Committee and the Compensation Committee are independent directors;
- a portion of committee agenda items are mandatory and recurring; and
- a portion of all Board meetings are held with no Management personnel present.

## BOARD MANDATE

The Board's mandate is to provide direction for the appropriate stewardship of Inventronics, and to act in the best interests of its stakeholders. The Board conducts its activities in accordance with:

- the Business Corporations Act (Alberta);
- Inventronics' articles of incorporation and bylaws;
- Inventronics' Code of Conduct; and
- other applicable Company policies.

The Board approves all significant decisions that affect Inventronics before they are implemented. In addition, all major corporate plans, including strategic plans, business development plans, and succession plans are reviewed and approved by the Board.

Directors fulfill their roles by preparing for and attending regularly scheduled meetings of the Board and its committees. At the meetings, directors receive and review prepared reports prepared by Management concerning Inventronics' business operations and financial performance.

## GOVERNANCE COMMITTEE

The Governance Committee, composed exclusively of non-management directors, a majority of whom are independent directors, is responsible for developing and monitoring Inventronics' overall governance principles, recommending any changes and approving Inventronics' disclosures in response to National Instrument – Disclosure of Corporate Governance Practices. The Committee evaluates the effectiveness of the Board, committees and individual Directors.

## AUDIT COMMITTEE

The Audit Committee, chaired by an independent professionally qualified director, is responsible for reviewing audit functions and recommending for approval to the Board all public disclosure information. The Committee makes inquiries to ensure that Management has effective internal control systems in place, and meets with the auditors with and without Management present on a quarterly basis.

## MORE INFORMATION

For more information about Inventronics' corporate governance practices, including responses to National Instrument 58-101: Disclosure of Corporate Governance Practices, refer to the Investor Relations section at **www.inventronics.com**.

## DIRECTORS

Donald R. Steele, Chairman
*President*
*Mercantile Bancorp Limited*

Dan J. Stearne
*President and Chief Executive Officer*
*Inventronics Limited*

Mitchell J. Taylor
*Retired President*
*Bellingham Marine Industries*

M. Eric Turcotte, CA
*President and Chief Executive Officer*
*Ventura Management Inc.*

Alan R. Wiggan
*Retired Executive*
*Parallel Strategies*

## OFFICERS

Dan J. Stearne
*President and Chief Executive Officer*
*Inventronics Limited*

## CORPORATE AND SALES OFFICE

#502, 1550 – 8th Street S.W.
Calgary, Alberta
Canada T2R 1K1
Telephone: (403) 265-4880
Facsimile: (403) 262-8835

## MANUFACTURING FACILITY

1420 Van Horne Avenue East
Brandon, Manitoba
Canada R7A 7B6

## WEB SITE

www.inventronics.com

## ANNUAL GENERAL MEETING

June 7, 2006 at 11:00 a.m. (PT)
At the offices of:
McCullough O'Connor Irwin
#1100, 888 Dunsmuir Street
Vancouver, British Columbia
Canada V6C 3K4

## BANKERS

Mercantile Bancorp Limited
Royal Bank of Canada

## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

## AUDITORS

Deloitte & Touche LLP

## LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

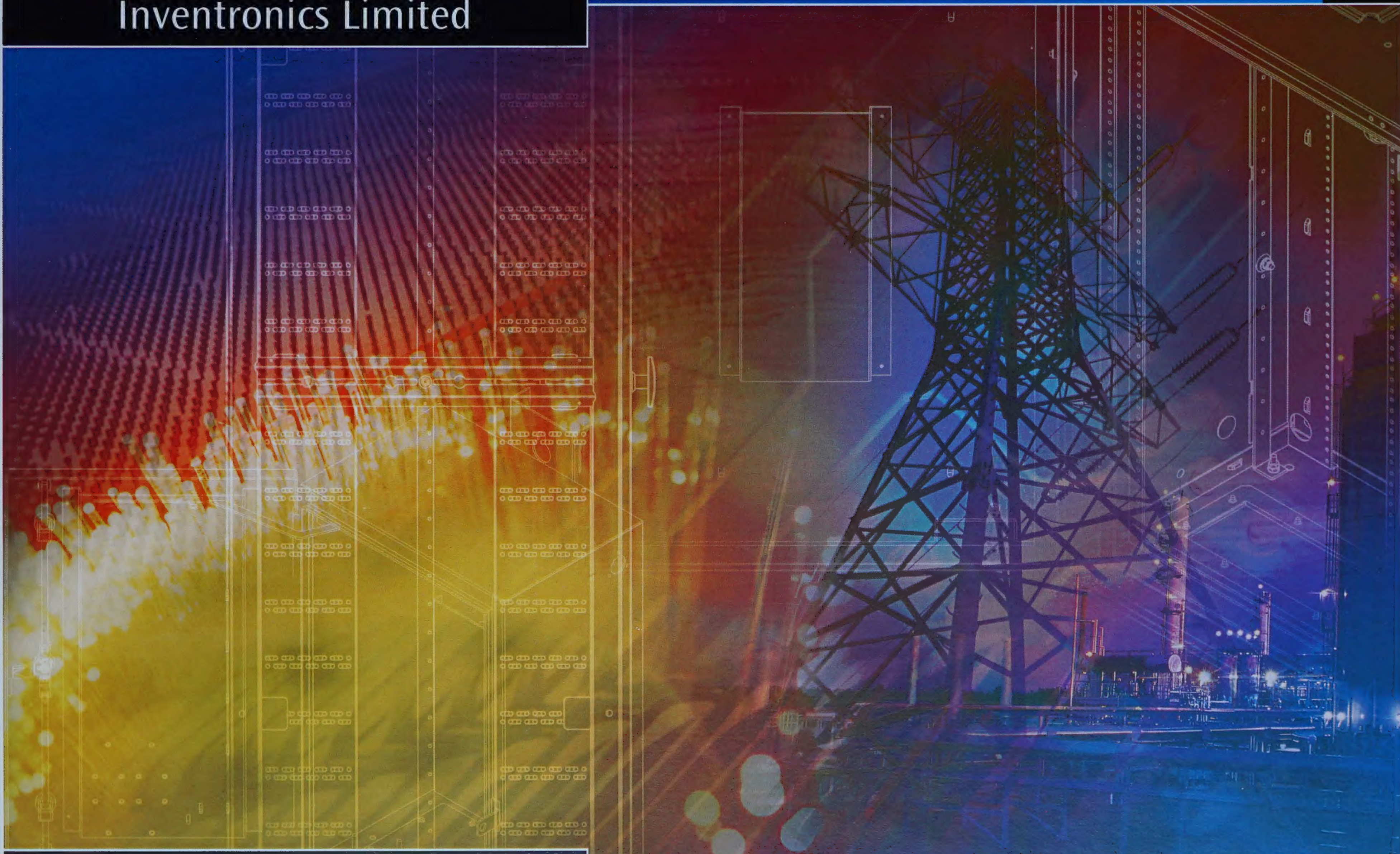
## STOCK EXCHANGE LISTING

The TSX Venture Exchange
Stock Symbol: IVT

IVT

Inventronics Limited

www.inventronics.com





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